

DATE: April 19, 2011

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager

FROM: David Boyd, Finance Director
Keith R. Herrmann, Deputy Finance Director

SUBJECT: Utility System Revenue and Revenue Refunding Bonds, Series 2011

EXECUTIVE SUMMARY

The Finance Department is proposing the issuance of Utility System Revenue and Revenue Refunding Bonds in an amount not to exceed \$70 million during May 2011. At its April 4th, 2011 regular meeting the City Council approved the resolution to authorize the issuance of the Bonds, approve the financing team, and apply to the Local Government Commission (LGC) for approval of the Bonds. This is the second of two agenda items that is required to proceed with the proposed financing and includes the adoption of the Bond Order and Series Resolution for the transaction. The Bond Order is being amended and restated to update and modernize it to be more consistent with bond documentation currently being used around the State of North Carolina and to make the document more user-friendly. Copies of the final documents will be made available in the City Clerk's Office prior to closing.

RECOMMENDATION

The Finance Department recommends that the City Council:

1. Approve the Amended and Restated Bond Order for the Utility System Revenue Bonds;
2. Approve the Series Resolution for the Utility System Revenue and Revenue Refunding Bonds, Series 2011; and,
3. Authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

BACKGROUND

The City's Water Management Department has a multi-year capital plan that includes various projects necessary for the continued growth and maintenance of the City's water and sewer utility system. Water and Sewer Revenue Bonds can be issued on an "as-needed" basis and the proposed issuance of bonds is one among several funding sources that will be used to adequately meet the on-going capital related costs of the system. The proposed issuance also includes a potential refunding of all or a portion of the City's Water and Sewer Utility System Revenue Bonds, Series 2001. A final decision on proceeding with the refunding will be made depending upon market conditions as the sale date of the issuance approaches.

This issuance, of not more than \$70 million, is planned for Fiscal Year 2011 and is the first in a series of issuances. To continue to fund the capital plan, it is anticipated that the City will issue additional Water and Sewer Revenue Bonds every other year in the future, including approximately \$140 million in FY13 and \$50 million in FY15. The issuance of debt will be managed to ensure relatively stable debt service.

ISSUES/ANALYSIS

Interest rates for Water and Sewer Revenue Bonds are currently very attractive. Final terms of the transaction will not be known until the sale date, but based upon estimated market conditions, it is anticipated that the interest rate on the planned issuance could be approximately 5% for the 30 year life of the Bonds. There is also a potential to refund all or a portion of the City's outstanding Water and Sewer Revenue Bonds.

There are several sources of information about the general terms and conditions of the Bonds. The Preliminary Official Statement and Bond Resolution provide the basic structure of the transaction and outline the legal requirements for the use of proceeds and revenues of the Water and Sewer Fund. Copies of both documents will be made available in the City Clerk's Office for reference purposes.

Among other things, the terms and conditions include a specified coverage ratio. The coverage ratio is a measure of the amount of financial cushion that the City has within its Water and Sewer Fund to adequately meet the on-going operational and maintenance related costs of the system and to pay debt service on all of the obligations of the fund on an annual basis. The coverage ratio is important because it is one of the driving forces behind the credit ratings issued by the credit rating agencies (Moody's, S&P, and Fitch) that investors use when deciding to purchase the Bonds or not and at what interest rate.

The City has a solid track record of financial performance with solid coverage ratios, and it has historically achieved a high credit rating that helps the City to minimize its overall debt service costs. As part of the Bond issuance process, on April 19th the City was notified that Moody's has upgraded the Water and Sewer revenue debt from Aa2 to Aa1. S&P and Fitch have assigned an AAA rating to the City's Water and Sewer revenue debt in the past, and as of April 19th the Finance Department is awaiting confirmation from the other two agencies.

ALTERNATIVES

City Council could choose to forego or delay this debt issuance; however, alternative funding sources have not been identified. Additionally, it is anticipated that interest rates will begin to increase later in this calendar year and a delay in the issuance could increase the interest costs of a future debt issuance.

FINANCIAL IMPACT

Unlike General Obligation Bonds, Water and Sewer Revenue Bonds do not require voter approval and are secured by the revenues produced from the water and sewer system. The City pledges to maintain rates and fees in a manner sufficient to repay the Bonds in a timely manner. The issuance of debt for the projects will result in annual debt service payments for the next 30 years.

Based upon estimated market conditions the impact on future water and sewer rate increases is expected to be moderate. Rate increases are anticipated to be held at a maximum of 5% during 2012 and in the near term. It is also important to note that if market

conditions are appropriate at the time of sale to proceed with the refunding opportunities, then the debt service associated with the refunded issuance will be decreased thereby offsetting some of the projected increases associated with the new money issuance.

SDBE SUMMARY

There are no SDBE issues with regard to this item.

Attachments:

Amended and Restated Bond Order for the Utility System Revenue Bonds
Series Resolution Authorizing and Securing Utility System Revenue and Revenue Refunding
Bonds, Series 2011